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IN MATERNITY LEAVE ON MICRO  
ENTERPRISES: THE VIEWS OF  
EMPLOYERS**

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# THE IMPLICATIONS OF THE EXTENSION IN MATERNITY LEAVE ON MICRO ENTERPRISES: THE VIEWS OF EMPLOYERS<sup>§</sup>

Svetlana Borg<sup>\*</sup>

**Abstract:** This study investigates the implications of the extension in maternity leave as proposed in the Estrela Report, with special reference to Maltese micro enterprises, taking the point of view of employers. Given that the majority of enterprises in Malta are chiefly micro enterprises, this study is intended to assess the direct and indirect costs associated with this proposal. A questionnaire was drawn up in order to better assess the effects of this proposal on micro enterprises in the manufacturing, wholesale and retail and hotels and restaurants sectors. The findings suggest that throughout the period of maternity leave, employers incur costs associated with the payment to the employee on leave, the engagement of a substitute, using overtime work, advertising the vacant job, training the substitute employee and loss of production due to the fact that the new employee would not be as productive as the employee on leave. Even though the main aim behind this proposal is to boost the female participation rate, the extension of maternity leave by six weeks at the expense of the employers could, according to the employers' survey, hinder female employment, and could also possibly lead to a decline in the female labour force participation in Malta.

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<sup>§</sup> This article was written and approved for publication before the announcement by the Minister of Finance, on 21 November 2011 that the current maternity leave of 14 weeks was to increase to 16 weeks in 2012 and to 18 weeks in 2013. These increases are to be paid by the government at €160 per week.

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## **Introduction**

This study investigates the implications of the extension in maternity leave as proposed in the Estrela Report (European Parliament, 2010) with special reference to Maltese micro enterprises, taking the point of view of employers. A survey was conducted in order to better assess the views of employers on the effects of this proposal on micro enterprises in the manufacturing, wholesale and retail and hotels and restaurants sectors.

The European Parliament proposed that maternity leave was to increase from 14 to 20 weeks in October 2010, based on the proposals contained in the Estrela report. The European Parliament, however rejected these proposals.

Micro and Small Enterprises (MSEs) account for a very large proportion of employment in the Maltese private sector. Accordingly, the authorities should be careful before implementing any policies that might have severe implications on firms, especially on micro enterprises, given their predominance in the Maltese economy. Almost every country provides maternity leave for a limited period before and after childbirth whilst allowing them to return to their workplace after this period. However, job-protected maternity leave mandates vary considerably both in terms of duration and financing between countries. For instance, in the United States, the duration of maternity leave amounts to a maximum of twelve weeks, but in order to qualify for this benefit, the pregnant employee should have worked at least 1,250 hours in the preceding year for her employer and she must be working in a firm that employs more than fifty persons. In this way, MSEs are excluded from the financing of maternity leave.

This study analyses the implications of the proposals made by the Estrela Report (2010) regarding the duration of maternity leave, taking the views of employers. This proposal states that the minimum maternity leave in the European Union (EU) should be extended from the current fourteen weeks to twenty weeks, where six weeks must be taken directly after childbirth. In addition, employees on maternity leave must be paid their full salary which must be equivalent to 100% of their last monthly salary or their average monthly pay. This proposal is deemed to produce benefits as well as costs to the economy as a whole. The main benefit of extending paid maternity

leave is that more women, specifically mothers, could be attracted to join the labour force. As a result of increased leave, mothers can benefit from a longer period of breastfeeding and from better parental bonding. The employer could also benefit because as a result of extended leave the female employee would not have to terminate her employment and the employer would therefore retain an experienced employee.

However, as a result of extended maternity leave, the employer will face additional costs, principally because of the need to pay for the leave, engage substitute workers to replace the female employee on leave, advertise the position, and train the new worker. In some instances the employer would have to use overtime work. Moreover, he would lose the services for the duration of the leave and the services of an experienced employee. If the cost of extended leave is borne by the employer, this may affect the firm's competitiveness and may actually lead to the shedding of employment. It may also encourage employers to employ males instead of females. Thus, though these maternity leave mandates are intended to favour women and increase their participation rate, it is possible that the end result could be disadvantageous for women.

This paper is organised as follows. Following this brief introduction, Section 2 reviews briefly the existing literature related to the theme of this study. The methodology used is explained in Section 3. An analysis of the results obtained from the questionnaire is provided in Section 4. Section 5 puts forward a number of policy recommendations which include family-friendly measures that could provide benefits to the employee as well as to the employer. Section 6 concludes the paper.

## **Brief Literature Review**

Alewell and Pull (2003) consider both direct and indirect costs that are borne by the employer when an employee is on maternity leave. The authors identify two types of indirect costs: human capital depreciation and the costs of re-organization. In their study, the authors argue that human capital depreciates as the duration of the leave increases. The authors further argue that if the duration of maternity leave is long, the returning mother may need the same amount of training as a new employee. In their analysis, the authors suggest that human capital depreciation will not

be significantly affected if maternity leave duration is between twelve to sixteen weeks.

Moreover, Alewell and Pull identify a cost which is considered to be direct and the most obvious—the payments a mother receives during the period of maternity leave. The authors argue that employers try to pass on these costs to young female employees in the form of wage reductions. This is in line with other studies (Gruber and Krueger, 1991; Gruber, 1994; Anderson and Meyer, 1995; Ruhm, 1998).

Interestingly, Ruhm (1998) argues that even if the maternity leave payments are financed by the government, firms still have to incur some costs such as the expenses related to the hiring and training of a temporary worker. Klerman and Leibowitz (1997) argue that a disruption in the production of the firm caused by maternity leave is more severe than other types of leaves because such leave is often longer and employers cannot anticipate the timing of such leave.

An additional related strand of literature is that by Scheubel (2009). The author refers to a study carried out by Saint-Paul (1997) in which the latter considers employment protection laws and implied lay-off costs as one of the main reasons behind labour market rigidities and unemployment in Europe. Scheubel (2009) states that job-protected leave mandates increase lay-off costs for an employer. This occurs due to the possibility that when the period of maternity leave expires, the mother must be given the same or an equivalent job, even though she is likely to experience depreciation in her human capital during her period of absence.

Two studies on the Maltese labour market considered the effects of the possible changes in maternity leave legislation. The Malta Business Bureau (MBB, 2010) estimates that the costs involved in this proposal of extending the maternity leave by six weeks are probably large and they are likely to increase in an exponential manner. The MBB estimates that this proposal would cost the economy around €7.5 million worth of value added annually which is equal to about 0.18% of the Gross Domestic Product (GDP). Of those €7.5 million, €5.3 million are the costs to private businesses.

On the other hand, Scicluna (2010) argues that the benefits of the extension in maternity leave are quite significant when compared to the costs of this proposal. He estimates that the costs are lower by about half the amount

estimated by the MBB. In fact, the author provides an estimate of the costs of this directive equal to €5 million. He also finds positive effects on the Maltese economy, if the maternity leave had to be extended to twenty weeks. Indeed, Scicluna states that: “Malta has the opportunity to see a significant jump in its current abysmally-low prime age (25-54) female participation rate (FLFPR) by up to a maximum 9 percentage points.” The author believes that the costs of this proposal are worth undertaking as he regards these costs as an investment for the Maltese economy.

## **Methodology**

To analyse the views of micro enterprises on maternity leave, a survey was conducted by means of a questionnaire, to which 30 firms responded. The respondents were randomly chosen from a list provided by Malta Enterprise. The list contained micro enterprises in Malta and only those that employed at least one female employee below the age of 35 were selected.

The sample contained micro enterprises that operated in three sectors, namely manufacturing, wholesale and retail and hotels and restaurants sectors. These three sectors of the economy account for about 40% of private sector jobs and they have a high dependence on micro enterprises as well as on female employees.

The respondents were the employers themselves in view of the fact that the survey requested certain information that could only be obtained from the employer. The majority of the entrepreneurs were females. Since the focus was only on micro enterprises, the number of employees in each company could not exceed nine.

The employers were asked to quantify the costs of five effects related to an increase of six weeks of maternity leave, namely the cost of paying the employee on leave, the cost of hiring a replacement, the cost of using overtime work, the cost of advertising the vacant position and the imputed cost of lost production, associated with losing the services of a trained and experience worker. These costs are averaged out per enterprise.

## The Costs to the Employer

### *Cost of maternity payments*

Maternity leave is paid at a rate equal to the normal wage per week. Not each and every enterprise that was surveyed employed full-time workers. Actually, 9 of the 30 employers surveyed stated that they preferred to employ females on a part-time basis due to the fact that if they had to pay maternity leave to their female employees, they would at least incur a lower cost than if they had to pay a full-time wage. Weekly wages ranged from €50 per week in the retail sector to €250 per week in the manufacturing sector.

**Table 1**  
**Information about the Sample of Micro Enterprises (2011)**

Category of Business	No. of Enterprises	Female Employers	Total Employees	Women the aged 35* and Younger	Women who Took Maternity Leave
Wholesale and Retail	18	11	61	29	3
Hotels and Restaurants	9	4	58	22	/
Manufacturing	3	2	22	4	/
<b>Total</b>	<b>30</b>	<b>17</b>	<b>141</b>	<b>55</b>	<b>3</b>

On average the micro enterprises surveyed paid their employees €150 per week. If the proposal of an additional 6 weeks maternity leave were to be implemented, each employer, on average, would have to fork out an extra €900 as maternity payments for one female employee on maternity leave.

### *Hiring a replacement*

The costs of the maternity benefits are not the only costs incurred by the employers during the period of maternity leave. If the employers decide to hire a substitute for the duration of the maternity leave, then there is an additional cost involved. Thus, the employer will be paying the full pay to the mother on leave and the wage of the temporary worker. The respondents were asked whether they would hire a substitute if one of their female employees is on maternity leave.

Twenty-one of the 30 respondents stated that they would employ a substitute during the period of maternity leave. However, 7 employers stated that they would only employ substitutes on a part-time basis. Seven respondents stated that they do not hire a substitute worker and in order to save on costs they do the job themselves. Owners of restaurants asserted that they would only employ a substitute temporary worker during the summer months. Interestingly enough, one employer claimed that she would pay the substitute a higher weekly wage than the employee who is out on maternity leave in order to try keeping the substitute for the whole duration of the maternity leave. Averaging out the cost of hiring a replacement over the 30 enterprises, on the basis of the information given by the respondents, it appears that on average the cost to the employer would be €80 per week. On the basis of this estimate, if the proposal of the extension in maternity leave by six weeks had to materialize the additional cost of hiring a substitute would be €480 per enterprise.

### *Paid overtime work*

The employers were asked to state whether they offered the option of overtime work to the rest of the employees if one of their female employees was out on maternity leave. Only five micro enterprises opted to offer overtime work to the rest of the employees, instead of employing a replacement worker. Basing on the respondents who stated that they opted to pay overtime rates, it appears that estimated additional cost would amount to about €80 per week. Averaging this out over the 30 enterprises, the cost would be €13 per enterprise. Thus the cost of the additional six weeks would amount to €78 on average.



### *Advertising the vacant post to hire a temporary worker*

An extra cost that is incurred by the employer during the period of maternity leave is the advertising cost of hiring a substitute. Out of the 21 micro enterprises that opted to hire a substitute, thirteen enterprises advertised the vacant post. The remaining respondents stated that they did not incur advertising costs as they would only employ people whom they knew personally. Eight respondents stated that they would use the option of in-house advertising, by attaching a notice in their establishment as they regarded advertising as an unaffordable expense to their business. The thirteen enterprises that opted to advertise the vacant post, gave various estimates of the advertising cost, and it is therefore not easy to calculate the cost of advertising the vacant post, given the variations in the responses. Using a plausible cost of €50 per advert for 13 enterprises, and spreading this over 30 enterprises, the estimated average expenditure on advertising per enterprise is €22.

### *Provision of training to the temporary worker*

Twenty-one respondents stated that when they choose to hire a temporary worker they provide training to these substitute employees. Thus there could be an additional cost associated with maternity leave – that relating to training of the substitute worker.

However, most respondents found it difficult to provide estimates of the cost of training. Nevertheless, most of the employers stated that the waste of time involved in the provision of training, can be regarded as the cost. From the information provided by 7 respondents it appeared that the cost of training, averaged €75 per week. Either averaging this over 30 enterprises or spreading this out over 30 enterprises, the estimated average expenditure per enterprise on training is €52.5 per week or €315 over six weeks.

### *Production loss*

Respondents were asked as to whether they experienced a loss in their productivity during the period of maternity leave. Twenty four employers stated that they experienced a loss in their production during the period of maternity leave, due to the fact that women employees with work experience who are on maternity leave tend to be more productive

than the substitute worker, whereas the others said they did not.

Nearly all of the employers who experienced a loss in their production argued that this is one of the most negative effects of maternity leave. Only six respondents stated that their production would not be affected when one of their employees is on maternity leave. These companies were mainly from the retail sector. The respondents found it difficult to quantify the cost of the loss in production per week. Out of those 24 enterprises which stated that they suffer a loss in production, only five enterprises estimated its cost, which averaged about €50 a week. Spreading this over 30 firms for 6 weeks, the average cost per enterprise would be €240. This would be the extra cost associated with loss of production associated with an additional 6 weeks of leave.

**Table 2**  
**Total Cost of Six Weeks of**  
**Maternity Leave per Enterprise**

<b>Item of Cost</b>	<b>Cost €</b>
Cost of maternity leave	900
Engaging a substitute	480
Overtime work	78
Advertising the position	22
Training	315
Production loss	240
<b>Total cost</b>	<b>2035</b>

### *The total cost*

Taking all these costs into consideration, it would appear that the total cost per enterprise would amount to just over €2035 per enterprise, as shown in Table 2.

## **Is the Extension in Maternity Leave a Factor against Women?**

The employers were asked if they regard the proposal of the extension in maternity leave as a factor against employing females. Twenty-two respondents regard this proposal as a factor that would work against the interest of female employees. The main argument advanced by respondents—and it must be stressed that this is the employers' view—was that it is highly possible that more employers will be willing to employ males rather than females because of the costs associated with maternity leave. The remaining, 8 respondents did not consider this proposal as a factor working against females due to the fact that they consider female employees as more productive than their male counterparts.

### *Government financing part of the maternity leave*

Due to the fact that the maternity leave is entirely financed by the firm except for the fourteenth week, the employers were asked if they think that the Maltese government should shoulder all or part of the financial burden associated with 6 extra weeks of leave. As expected, the respondents agreed that the government should pay for the extra leave if this was to be imposed by law or else offer other assistance in compensation, such as tax credit or reductions from social security payments. An alternative option suggested was that the additional six weeks should be given as unpaid leave.

## **Policy and Recommendations**

From the foregoing analysis, therefore, it emerges that there is a substantial cost associated with an increase of 6 weeks of maternity leave. It can be argued therefore that, according to the views of employers, extending mandated maternity leave might work against the interests of women employees, as some firms would prefer to employ males rather than females.

This would lead to the argument that other measures could be resorted to encourage female participation in the labour force. Finding a balance between work and family responsibilities, through family-friendly policies is important in this regard. Such measures could include career breaks, parental leave, and flexible working arrangements, which serve the

interests of both employers and employees.

In this regard the Maltese government should invest in good quality child-care centres so as to encourage women to join the labour market as in this way they would find it more compatible to bear and rear children. In the Nordic countries, for instance in Sweden, female participation rates are significantly high possibly due to the fact that the government offers free child-care centres that are available to all children. These measures would possibly serve to remove barriers impeding women to return to their previous jobs after childbirth more than the extension of maternity leave.

The Malta Employers' Association (2011) puts forward other recommendations so as to make it easier for parents to effectively combine work and family life. One proposal related to extended school hours. This matter is a key problem to many parents as schools close too early when compared to the time the majority of people finish work.

Another proposal is relates to the access to temporary work agencies. With the introduction of these agencies it would be possible for employers to satisfy requests for flexible work arrangements. This argument leads to the conclusion that, the Maltese Government should establish a legislative framework in order to help temporary work agencies.

The MEA also recommended atypical employment, such as part-time work, definite period contracts, and other sorts of flexible working conditions. The MEA argues that atypical is important. It should be argued, however, that atypical work should not lead to precarious work - poorly paid, insecure and legally unprotected.

## **Conclusion**

The aim of this study was to assess the implications of extending the duration of maternity leave by six weeks, focusing on micro enterprises. In the analysis, it is clearly evident that this proposal would affect negatively the majority of the micro enterprises in Malta. This would in turn affect the competitiveness of the enterprise and could encourage employers to prefer employing males to females. It is therefore possible that increasing the maternity leave from the current statutory fourteen weeks to twenty weeks as proposed in the Estrela Report can worsen the situation of the Maltese

women on the labour market, particularly if the employers are made to pay for such leave. This measure can also have a negative effect on the Maltese economy, as it reduces the competitiveness of enterprises.

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